

Message Text

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E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
FEBRUARY 14, 1978

1. US-ASEAN DIALOGUE (LIMITED OFFICIAL USE)

ALTHOUGH NO OFFICIAL COMMUNICATION HAS YET REACHED US ON THE OUTCOME OF THE ASEAN STANDING COMMITTEE'S DISCUSSION OF THE US-ASEAN DIALOGUE EARLIER THIS MONTH, A REPORT FROM EMBASSY BANGKOK SUGGESTS THAT IT WAS INCONCLUSIVE. ASEAN IS NOT YET READY TO MEET WITH US ON DISCUSSING AID PROJECTS AND APPARENTLY FEELS THAT A MINISTERIAL MEETING THIS SUMMER WOULD BE PREMATURE. OTHER SOURCES ALSO CONFIRM THAT THIS IS THE VIEW WHICH PREVAILED IN THE STANDING COMMITTEE, NOTWITHSTANDING A SOMEWHAT DIFFERENT MESSAGE FROM SINGAPORE. OUR NEXT CHANCE TO EXPLORE WHERE WE GO
CONFIDENTIAL

PAGE 02 STATE 039446

FROM HERE IS AT AMBASSADOR ZAIN'S LUNCH THIS NEXT FRIDAY. IN THE MEANTIME, I AM HOLDING THE MEMO TO THE SECRETARY URGING HIS PARTICIPATION. CONFERENCE FACILITIES IN THE DEPARTMENT ARE NOW AVAILABLE BETWEEN JULY 17-28.

2. REPLACEMENT OF ASEAN SECRETARY GENERAL (LIMITED OFFICIAL USE)

ASEAN FINALLY RESOLVED THE PROBLEM OF HOW TO REPLACE GEN. DHARSONO, THE ASEAN SECRETARY GENERAL WHO INCURRED THE

DISFAVOR OF THE GOI WHICH NOMINATED HIM IN THE FIRST PLACE. IN LIEU OF A FOREIGN MINISTERS' MEETING, THE THAI AMBASSADOR ON BEHALF OF THE STANDING COMMITTEE INFORMED DHARSONO OF THIS RECALL. HE IS BEING REPLACED BY THE INDONESIAN DIRECTOR-GENERAL OF THE GOI ASEAN SECRETARIAT UMARJADI. THE ASEAN SECGEN'S ROLE HAS BEEN MINIMAL AND THE CIRCUMSTANCES OF THE FIRST SECGEN'S DISMISSAL IS NOT LIKELY TO ENHANCE THE POSITION'S STANDING AND PRESTIGE.

3. ADB BOARD ISSUES (LIMITED OFFICIAL USE)

THE ADB BOARD AGREED TO A LIMITED SYSTEM OF PROGRAM LENDING ALONG THE LINES OF THE MANAGEMENT'S PROPOSAL AS MODIFIED BY A DONOR COUNTRY GROUP. THESE LIMITATIONS GENERALLY CORRESPOND TO U.S. DESIRES. THE BOARD, AFTER LENGTHY DEBATE, ALSO DECIDED TO CUT THE LENDING RATE TO 7.65 PERCENT. THE U.S. ED WAS THE ONLY ONE FINALLY TO OPPOSE DECISION. THE BOARD ALSO AGREED TO INCREASE THE LENDING PROGRAM BY \$200 OVER FOUR YEARS. SEVERAL DONORS, INCLUDING THE U.S., FAVORED PHASING IN THIS INCREASE IN ORDER NOT TO AFFECT LOAN QUALITY THIS YEAR, BUT THE LDGS AND JAPANESE FAVORED IMMEDIATELY INCREASING THE LENDING PROGRAM.

CONFIDENTIAL

PAGE 03 STATE 039446

4. MULTILATERALIZATION OF HUMAN RIGHTS POLICY (CONFIDENTIAL)

THE U.S. TEAM WHICH VISITED SELECTED EUROPEAN CAPITALS AND CANADA TO DISCUSS MULTILATERALIZATION OF HUMAN RIGHTS POLICIES FOUND THAT MOST GOVERNMENTS GENERALLY WELCOMED THE EMPHASIS ON HUMAN RIGHTS BY THE CARTER ADMINISTRATION AND THE VIEW THAT HUMAN RIGHTS SHOULD BE TAKEN INTO ACCOUNT IN BILATERAL AND MULTILATERAL ASSISTANCE. THERE WAS CAUTION, HOWEVER, THAT SANCTIONS IN IFIS SHOULD BE APPLIED CAREFULLY AND LIMITED TO A SMALL NUMBER OF COUNTRIES. THE DESIRABILITY OF CONSULTATIONS PRIOR TO SPECIFIC ACTIONS WAS NOTED. THE BRITISH, WHO RESERVED ON A COMMITMENT OF SUPPORT, URGED THAT THE INTEGRITY OF THE IMF AND THE IFIS NOT BE RISKED. OTHERS STRESSED THAT EFFORTS TO PROMOTE HUMAN RIGHTS AND EFFORT TO PROMOTE ECONOMIC DEVELOPMENT MUST BOTH BE GIVEN STRONG EMPHASIS. THE CANADIANS, WHILE AGREEING ON THE PRINCIPLE OF PURSUING HUMAN RIGHTS OBJECTIVES, EXPRESSED SKEPTICISM ABOUT BEING ABLE TO TRANSLATE IT INTO OPERATIONAL POLICY.

5. EXPORT CREDIT CONSENSUS (CONFIDENTIAL)

FRENCH OFFICIALS HAVE INFORMED EMBASSY PARIS IN ADVANCE OF FEB. 15-21 MEETING TO DRAFT NEW EXPORT CREDIT CONSENSUS THAT GOF IS PREPARED TO MAKE A SMALL BUT

POLITICALLY DIFFICULT CONCESSION ON INTEREST RATES TO MIDDLE INCOME COUNTRIES. WHILE THIS WILL PERMIT THE EC TO AGREE TO A SLIGHTLY IMPROVED CONSENSUS, FRANCE (HENCE THE EC) IS FIRMLY AGAINST REFORM ON EVEN REPORTING OF TIED AID OR MIXED CREDITS. CONSEQUENTLY, IT WILL NOT BE POSSIBLE TO USE THE EXPORT CREDIT CONSENSUS AS A VEHICLE FOR LIMITING JAPANESE USE OF TIED AID OR MIXED CREDITS.

CONFIDENTIAL

PAGE 04 STATE 039446

6. NORTH/SOUTH ISSUES: COMMON FUND AND LDC DEBT
(LIMITED OFFICIAL USE)

THE FIRST MEETING OF THE OECD HIGH LEVEL GROUP ON COMMODITIES SINCE THE NOVEMBER COMMON FUND CONFERENCE AGREED THAT A NEW SESSION OF THE CONFERENCE SHOULD NOT BE CONVENED UNLESS IT COULD BE EXPECTED TO PRODUCE SOME DEGREE OF SUCCESS. THE PROSPECTS FOR A RECONVENING WOULD HAVE TO BE ASSESSED AFTER UNCTAD SECRETARY GENERAL COREA'S CURRENT ROUND OF CONSULTATIONS WITH THE G-77. HOWEVER, IT WAS AGREED THAT IT WAS UNLIKELY THAT THE CONFERENCE WOULD BE RECONVENED BEFORE JUNE.

COREA WILL BE IN WASHINGTON THIS WEEK TO DISCUSS NORTH/SOUTH ISSUES. WE WANT TO LEARN THE RESULTS OF HIS CONSULTATIONS WITH VARIOUS G-77 COUNTRIES ON THE COMMON FUND, I.E., IS THE G-77 WILLING TO BE FLEXIBLE. COREA IS EXPECTED TO BRING UP THE QUESTION OF DEBT RELIEF, A SUBJECT THAT THE G-77 IS FOCUSING ON IN LIGHT OF THE UPCOMING UNCTAD TRADE AND DEVELOPMENT BOARD MINISTERIAL, MARCH 6-10.

DEVELOPING COUNTRY DEBT IS THE MAJOR AGENDA ITEM FOR THE MINISTERIAL. THE G-77 WILL BE PRESSING HARD WITH DEMANDS FOR GENERALIZED DEBT RELIEF NOW AND FOR THE ESTABLISHMENT OF GUIDELINES WHICH WOULD RESULT IN SEMI-AUTOMATIC DEBT RESCHEDULING IN THE FUTURE. WHILE A FEW LDCS ARE INTERESTED IN COMMERCIAL DEBT OFF THE PRIME FOF OF THE G-77 WILL BE ON RELIEF OF THE OFFICIAL DEBT OF LOW INCOME LDCS. MOST OF THE PRESSURE FOR GENERALIZED RELIEF IS COMING FROM THE FEW LDCS (INDIA, PAKISTAN, AND BANGLADESH) WHO STAND TO BENEFIT MOST FROM THE G-77 PROPOSALS.

PAGE 05 STATE 039446

POSALS, ALTHOUGH THE GENEVA-BASED AFRICAN DELEGATIONS (REPRESENTING COUNTRIES WHICH WOULD GAIN LITTLE FROM THE PROPOSALS) ARE ALSO PROMINENT SUPPORTERS.

7. COPPER (LIMITED OFFICIAL USE)

THE THIRD PREPARATORY MEETING ON COPPER DECIDED TO ESTABLISH A PRODUCER/CONSUMER FORUM AND A WORKING GROUP WAS CHARGED WITH DEVELOPING THE TERMS OF REFERENCE. INDO-NESIAN MINING MINISTER SADLI AND, DURING THE LATER STAGES OF THE MEETING, AMBASSADOR ALATAS, PLAYED A KEY ROLE IN PERSUADING THE MORE RELUCTANT PRODUCERS TO ACCEPT THIS OUTCOME BUT SADLI IS REPORTEDLY UNHAPPY ABOUT THE SLOW PROGRESS TOWARD A STABILIZATION AGREEMENT.

8. MTN (LIMITED OFFICIAL USE)

AN AGREEMENT WITH INDIA ON TROPICAL PRODUCTS HAS BEEN INITIALED ALTHOUGH THERE ARE A NUMBER OF IMPORTANT ISSUES STILL TO BE RESOLVED. THE AGREEMENT IS SIGNIFICANT FOR THE FACT THAT ONE OF THE LEADING G-77 IS WILLING TO MAKE CONTRIBUTIONS BEFORE THE CONCLUSION OF THE MTN.

DURING DISCUSSIONS WITH BOTH THE AUSTRALIANS AND NEW ZEALANDERS, AMBASSADOR WOLFF EMPHASIZED THAT A FINAL MTN PACKAGE INCLUDE A SUBSTANTIAL AGRICULTURE ELEMENT. AUSTRALIAN PM FRASER INDICATED THAT AUSTRALIA WILL BE MAKING AN OFFER AND BE ACTIVELY INVOLVED IN THE MTN NEGOTIATIONS NEW ZEALAND MADE A COMMITMENT TO TABLE THEIR OFFER BY THE END OF THE MONTH.

9. SECTIONS 911 AND 912 OF TAX CODE (LIMITED OFFICIAL USE)

MODIFYING STATUS REPORT ITEM ON THIS SUBJECT LAST WEEK, OMB HAS CIRCULATED FOR AGENCIES' COMMENTS A TREASURY CONFIDENTIAL

PAGE 06 STATE 039446

PROPOSAL COVERING BOTH SECTIONS 911 AND 912. PROPOSAL ON 911 (INCOME OF PRIVATE AMERICANS ABROAD) IS AS REPORTED LAST WEEK, I.E., TAXPAYER COULD DEDUCT EITHER LAST (TOP BRACKET) 15,000 DOLLARS OF FOREIGN SOURCE EARNED INCOME OR ITEMIZED DEDUCTIONS FOR EDUCATION AND HOME LEAVE ALLOWANCE (WITHIN LIMITS) AND HOUSING ALLOWANCE ABOVE 20 PERCENT OF GROSS INCOME. NEW PROPOSAL IS THAT SECTION 912 BE MODIFIED ALSO TO MAKE HOUSING ALLOWANCE OF OFFICIAL AMERICANS OVERSEAS TAXABLE UP TO 20 PERCENT OF GROSS INCOME. ALSO, USG EMPLOYEES IN ALASKA AND HAWAII WOULD BE EXCLUDED FROM SECTION 912.

10. KOREAN CONTRIBUTION TO ADB TECHNICAL ASSISTANCE (LIMITED OFFICIAL USE)

KOREA HAS OFFERED A FURTHER CONTRIBUTION OF US 150,000 DOLLARS TO BE ALLOCATED TO ADB'S TASF. THE GOVERNMENT REQUESTS THAT, IN THE INITIAL USE OF THE CONTRIBUTION, DUE CONSIDERATION BE GIVEN, WHENEVER APPROPRIATE, TO EMPLOYMENT OF SUITABLY QUALIFIED EXPERTS AND CONSULTING

FIRMS FROM DEVELOPING MEMBER COUNTRIES OF THE BANK, INCLUDING THE REPUBLIC OF KOREA.

11. EC-JAPAN TRADE CONSULTATIONS (CONFIDENTIAL)

THE EC COMMISSION HAS ASKED THE GOJ TO ESTABLISH A JOINT TRADE FACILITATION COMMITTEE PATTERNED AFTER THE US ARRANGEMENT. THE GOJ IS EXPECTED TO AGREE TO SUCH A REQUEST. WE ARE CONCERNED THAT SUCH A COMMITTEE MIGHT LEAD TO COMPETITIVE BILATERAL PRESSURES ON JAPAN IN SPECIFIC PRODUCT AREAS. THE EC REPORTEDLY SUBMITTED A LONG LIST OF PRODUCTS ON WHICH IT IS SEEKING CONCESSIONS FROM JAPAN WE WANT TO DISCOURAGE BILATERAL PRESSURE FOR JAPANESE
CONFIDENTIAL

PAGE 07 STATE 039446

PURCHASES AIMED NOT AT EXPANDING JAPANESE IMPORTS BUT AT REPLACING ONE FOREIGN SOURCE WITH ANOTHER, SUCH AS EC REQUESTS THAT JAPAN BUY THE AIRBUS. VANCE

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